

Message Text

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TAGS: ECON, ELAB, SP

SUBJ: GOS CALLS FOR AUSTERITY TO MEET ECONOMIC PROBLEMS

1. SUMMARY: IN HIS MAIDEN SPEECH, THE GOS VICE PRESIDENT FOR ECONOMIC AFFAIRS TOLD THE CORTES THAT SPAIN HAD BEEN LIVING BEYOND ITS MEANS FOR THE LAST TWO YEARS AND THAT AN EXCESSIVELY LIBERAL WAGES POLICY WAS THE ROOT CAUSE OF SPAIN'S HIGH LEVEL OF INFLATION. HE CALLED FOR WAGES RESTRAINT AND INCREASED INVESTMENT TO COPE WITH THE COUNTRY'S ECONOMIC DIFFICULTIES AND, WHILE POINTING OUT THAT THE NEW GOVERNMENT HAD NOT HAD TIME TO DEVELOP A DETAILED ECONOMIC PROGRAM, HE LISTED SOME PRIORITARY ECONOMIC GOALS FOR THE SHORT AND MEDIUM TERM. END SUMMARY.

2. IN A DECEMBER 29 SPEECH TO THE CORTES ON THE BUDGET, RECENTLY APPOINTED MINISTER OF FINANCE AND VICE PRESIDENT FOR ECONOMIC AFFAIRS JUAN MIGUEL VILLAR MIR TOOK THE OPPORTUNITY TO REVIEW THE COUNTRY'S ECONOMIC SITUATION, ANALYZE THE SOURCE OF CURRENT PROBLEMS AND SKETCH IN BROAD TERMS HIS PRESCRIPTION FOR TREATING SPAIN'S ECONOMIC ILLS. IT WAS

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PERHAPS THE FRANKEST STATEMENT ON THE ECONOMIC SITUATION BY

A SPANISH OFFICIAL IN SOME YEARS AND IT HELD OUT LITTLE HOPE THAT THERE WERE ANY MAGIC FORMULAS FOR CONFRONTING SPAIN'S ECONOMIC SITUATION APART FROM THE CLASSICAL POLICY OF HOLDING DOWN CONSUMPTION, INCREASING INVESTMENT AND WORKING HARDER.

3. VILLAR MIR SET THE TONE BY STATING AT THE OUTSET THAT "IN THE LAST TWO YEARS WE HAVE CONSUMED MORE THAN WE HAVE PRODUCED, WE HAVE WORKED LESS RATHER THAN MORE AND WE HAVE WITNESSED A RACE BETWEEN PRICES ON THE ONE HAND AND WAGES ON THE OTHER. WHEREAS IN OTHER COUNTRIES SOLUTIONS ARE UNDERWAY, WE FIND OURSELVES WITH FUNDAMENTAL PROBLEMS OF INFLATION, EXTERNAL PAYMENTS DEFICITS, STAGNATION OF PRODUCTION, THE THREAT OF GROWING UNEMPLOYMENT AND A DECLINE IN INVESTMENT." WHILE NOTING THAT PART OF THE INFLATIONARY PROBLEM COULD BE LAID AT THE DOOR OF INCREASED RAW MATERIAL PRICES, HE SAID THAT MOST OF THE INFLATION OF THE PAST TWO YEARS WAS SPAIN'S OWN FAULT BECAUSE IT HAD PERMITTED WAGE INCREASES AVERAGING 30 PERCENT IN 1974 AND 28 PERCENT IN 1975, APPROXIMATELY DOUBLE THE INCREASE IN THE COST OF LIVING. "LIVING BEYOND THE COUNTRY'S MEANS" HAD ALSO WIDENED THE BALANCE OF PAYMENTS DEFICIT AND INCREASED THE FOREIGN DEBT TO AN ALL-TIME HIGH OF \$8.6 BILLIONS AT THE TIME WHEN GNP GROWTH HAD DROPPED TO BELOW ONE PERCENT, INVESTMENT NOTABLY IN INDUSTRY HAD FALLEN SHARPLY AND UNEMPLOYMENT HAD RISEN ACROSS THE BOARD.

4. THE MINISTER ADMITTED THAT THE NEW GOVERNMENT HAD NOT HAD TIME TO DEVELOP A DETAILED ECONOMIC PROGRAM BUT HE DID HAVE SOME GENERAL THOUGHTS ABOUT PRIORITIES AND GOALS FOR THE NEAR FUTURE. FOR 1976 THE GOVERNMENT WOULD SEEK TO REDUCE INFLATION BELOW THE 1975 LEVEL, TO HOLD THE CURRENT ACCOUNT DEFICIT IN THE BALANCE OF PAYMENTS TO \$2.5 BILLIONS (COMPARED TO \$3.1 IN 1974 AND AN ESTIMATED \$2.9 BILLIONS IN 1975) AND TO STIMULATE A GROWTH RATE OF ABOUT 4 PERCENT IN GNP. OVER THE MEDIUM TERM, THE GOVERNMENT WOULD AIM AT ANNUAL GROWTH RATES OF NO LESS THAN 5 PERCENT AND A REDUCTION OF CURRENT ACCOUNT DEFICITS TO ABOUT \$1 BILLION PER YEAR. THE GOVERNMENT WOULD PLACE GREAT STRESS ON STIMULATING INVESTMENT BOTH PUBLIC AND PRIVATE AND, MOST SIGNIFICANTLY, VILLAR MIR CALLED FOR HOLDING THE LINE ON WAGES OVER THE SHORT TERM TO NO MORE THAN THE INCREASES IN THE COST OF LIVING. FULL EMPLOYMENT WOULD CONTINUE TO BE THE LIMITED OFFICIAL USE

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PRIORITY OBJECTIVE FOR THE ECONOMY, BUT A "SUICIDAL INFLATION" WAS TOO HIGH A PRICE TO PAY FOR IT. WAGES POLICY OVER THE SHORT TERM SHOULD AIM AT "CONSOLIDATING EXISTING WELFARE LEVELS" RATHER THAN ADDING TO REAL INCOME. IT WOULD BE NECESSARY TO HOLD THE LINE ON WAGES SO THAT ENHANCED INVESTMENT COULD WORK TOWARD ACHIEVING FULLER EMPLOYMENT AND RESOLVING THE PROBLEMS OF INFLATION AND THE IMBALANCE IN EXTERNAL PAYMENTS.

5. COMMENT: VILLAR MIR'S PLAIN SPEAKING HAS BEEN GENERALLY WELCOMED, ALTHOUGH THERE ARE THOSE WHO TAKE EXCEPTION TO HIS LAYING SO MUCH OF THE BLAME FOR SPAIN'S PROBLEMS ON WAGES POLICY. THEY NOTE THAT HIS BACKGROUND IS PRIMARILY IN BIG BUSINESS WHERE THERE IS AN INGRAINED TENDENCY TO REGARD WAGE PRESSURES AS THE DEVIL IN THE PIECE. NEVERTHELESS, THERE IS A GREAT DEAL IN WHAT HE SAYS AND SPAIN WILL HAVE TO DO BETTER ON THE WAGES FRONT THAN IT HAS OVER THE LAST TWO YEARS IF IT IS TO BEGIN TO GET A HANDLE ON INFLATION. THIS WILL NOT BE EASY TO DO. LABOR IS RESTIVE IN THE ACE OF THE CURRENT WAGES GUIDELINES WHICH ALLOW INCREASES OF UP TO THREE PERCENT OVER THE RISE IN THE COST OF LIVING. VILLAR MIR'S FORMULA WOULD TAKE AWAY THIS INCREMENT IN REAL INCOME. WITH LABOR BEGINNING TO FEEL ITS OATS IN SPAIN'S LIBERALIZED POLITICAL CLIMATE, THE GOS WILL HAVE ITS HANDS FULL CONVINCING LABOR THAT THE NEW FREEDOM REALLY MEANS RESTRAINT. HIS OBJECTIVES FOR 1976 SEEM OPTIMISTIC UNLESS THERE IS A SHARP EARLY UPTURN IN THE WORLD ECONOMY, BUT SKETCHING OUT LESSER GOALS WOULD PROBABLY HAVE GIVEN AN EXCESSIVELY SOMBRE IMPRESSION WHEN COMBINED WITH HIS CALL FOR AUSTERITY. OVER THE PAST YEAR OR SO SPANISH ECONOMISTS HAVE TENDED IN PUBLIC STATEMENTS TO BLAME "IMPORTED INFLATION" FOR SPAIN'S PROBLEMS. HOPEFULLY, VILLA MIR'S FRANKNESS WILL LAY THIS CANARED AND PROVIDE A MORE REALISTIC BASIS FOR POLICY MAKING. IT IS EXPECTED THAT HE WILL HAVE A DETAILED STATEMENT OF THE GOS ECONOMIC POLICY READY FOR PUBLIC PRESENTATION SOMETIME IN JANUARY.

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